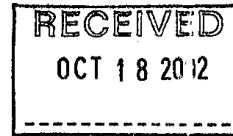




COMMISSIONER
SMALL BUSINESS/Self-EMPLOYED DIVISION

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

OCT 15 2002



MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: *JK* Joseph G. Kehoe *Joe F. Kehoe*
Commissioner, Small Business/Self-Employed Division

SUBJECT: Draft Audit Report - The New Suspension of Interest
Provision is Not Always Calculated Correctly
(Audit # 200110045)

I reviewed your draft audit report, which examined the Internal Revenue Service's compliance with suspension of interest in accordance with IRC Section 6404(g). We generally agree with your recommendations and are taking steps to implement them.

We have been working with MITS Services on a continuing basis to implement systemic processing that will accurately calculate the interest suspension when applicable. In response to this report, please note that MITS Services has made all computer program changes for 6404(g) processing in accordance with the RIS requirements submitted by the Office of Penalties and Interest.

Your report recommends that we work with MITS Services to identify taxpayers with under-assessed interest caused by the original Master File computer programming and adjust their accounts. MITS Services will provide an extract of the affected taxpayer accounts in accordance with criteria that the Office of Penalties and Interest will provide. Coordination with Wage and Investment is on-going to provide staffing to make the necessary manual updates to the impacted taxpayer accounts.

The Office of Penalties and Interest reviewed the TIGTA analysis of the 6404(g) interest calculations performed by Master File. We agree with the measurable impact that the recommended corrective actions will have on tax administration.

Our comments on the recommendations are as follows:

RECOMMENDATION 1

The SB/SE Division should coordinate with the MITS Division to create a systemic reminder to prompt employees and managers to consider whether the suspension of interest provision applies.

ASSESSMENT OF CAUSE

Employees do not always correctly input the notification date to taxpayer accounts when needed.

CORRECTIVE ACTION

We will consider the update to the Report Generating System to incorporate a systemic reminder on the applicability of Section 6404(g). This corrective action does not impact Master File and IDRS processing.

IMPLEMENTATION DATE

June 1, 2003

RESPONSIBLE OFFICIAL

Deputy Director, Compliance Policy, SB/SE

CORRECTIVE ACTION PLAN MONITORING

The Program Manager, Office of Penalties and Interest, will advise the Deputy Director, Compliance Policy of any delay, change, or problem with the implementation.

RECOMMENDATION 2

The SB/SE Division should incorporate review requirements for the suspension of interest provision in the Examination Quality Review Process system.

ASSESSMENT OF CAUSE

Employees do not always correctly input the notification date to taxpayer accounts when needed.

CORRECTIVE ACTION

We will update the Examination Quality Review Process system to include review criteria for the suspension of interest provision.

IMPLEMENTATION DATE

June 1, 2003

RESPONSIBLE OFFICIAL

Deputy Director, Compliance Policy, SB/SE

CORRECTIVE ACTION PLAN MONITORING

The Program Manager, Office of Penalties and Interest, will advise the Deputy Director, Compliance Policy of any delay, change, or problem with the implementation.

RECOMMENDATION 3

The SB/SE Division should coordinate with MITS Services to identify all taxpayers with under-assessed interest caused by the original Master File programming and zero out any under-assessed amounts.

ASSESSMENT OF CAUSE

SB/SE requested changes to computer programming systems to identify taxpayers with under-assessed interest. MITS Services made the requested changes. These programming changes, however, did not provide for under-assessed interest calculations when accounts are updated to include additional activity, such as disaster processing.

CORRECTIVE ACTION

With the assistance of MITS Services, the SB/SE Division will identify taxpayers with under-assessed interest and abate the under-assessed amounts to prevent burden on future disaster relief taxpayers or other taxpayers in special military conditions.

We will use a Master File extract, prepared by MITS Services, of impacted taxpayers. These taxpayers will be identified based on criteria prepared by Compliance.

IMPLEMENTATION DATE

June 1, 2003

RESPONSIBLE OFFICIAL

Deputy Director, Compliance Policy, SB/SE

CORRECTIVE ACTION PLAN MONITORING

The Program Manager, Office of Penalties and Interest, will advise the Deputy Director, Compliance Policy of any delay, change, or problem with the implementation.

RECOMMENDATION 4

The SB/SE Division should coordinate with MITS Services to identify disaster relief taxpayers and refund the amounts that were automatically collected on the under-assessed interest.

ASSESSMENT OF CAUSE

SB/SE requested changes to computer programming systems to identify taxpayers with under-assessed interest. MITS Services made the requested changes. These programming changes, however, did not provide for under-assessed interest calculations when accounts are updated to include additional activity, such as disaster processing.

CORRECTIVE ACTION

We will identify disaster relief taxpayers to refund amounts automatically collected on the under-assessed interest.

We will use a Master File extract, prepared by MITS Services, of impacted taxpayers. These taxpayers will be identified based on criteria prepared by Compliance.

IMPLEMENTATION DATE

June 1, 2003

RESPONSIBLE OFFICIAL

Deputy Director, Compliance Policy, SB/SE

CORRECTIVE ACTION PLAN MONITORING

The Program Manager, Office of Penalties and Interest, will advise the Deputy Director, Compliance Policy of any delay, change, or problem with the implementation.

RECOMMENDATION 5

The SB/SE Division should submit to the MITS Services a request for information services that will change the Master File computer programming for the 1-day discrepancy when calculating suspension of interest.

ASSESSMENT OF CAUSE

The Master File programming begins the suspension of interest on the second day following the end of the notification period instead of from one day after the end of the 18-month notification period.

CORRECTIVE ACTION

We have submitted a request for information services to MITS Services to make program corrections to suspend interest from the first day following the end of the notification period. The requested operational date is January 1, 2004.

IMPLEMENTATION DATE

January 1, 2004

RESPONSIBLE OFFICIAL

Deputy Director, Compliance Policy, SB/SE

CORRECTIVE ACTION PLAN MONITORING

The Program Manager, Office of Penalties and Interest, will advise the Deputy Director, Compliance Policy of any delay, change, or problem with the implementation.

RECOMMENDATION 6

The SB/SE Division should coordinate with MITS Services and determine the feasibility of an earlier anticipated operational date for the Master File programming modification involving weekend and holidays when calculating suspension of interest.

ASSESSMENT OF CAUSE

The Master File programming determines the end of the 18-month notification period prematurely because we do not consider weekends and holidays causing us to overcharge interest on some impacted accounts.

CORRECTIVE ACTION

We have submitted a request for information services to MITS Services to make program changes to consider weekends and holidays when calculating the end of the 18-month notification period. The requested operational date is January 1, 2004.

IMPLEMENTATION DATE

January 1, 2004

RESPONSIBLE OFFICIAL

Deputy Director, Compliance Policy, SB/SE

CORRECTIVE ACTION PLAN MONITORING

The Program Manager, Office of Penalties and Interest, will advise the Deputy Director, Compliance Policy of any delay, change, or problem with the implementation.

RECOMMENDATION 7

The SB/SE Division should coordinate with MITS Services to identify taxpayers' accounts for tax years 1998 and 1999 with disallowed EITC amounts that qualified for suspension of interest and reduce the amount of over-assessed interest on these accounts.

ASSESSMENT OF CAUSE

The Master File programming did not apply the suspension of interest to the Earned Income Tax Credit (EITC) portion of a tax adjustment.

CORRECTIVE ACTION

We have submitted a request for information services to MITS Services to make program changes to allow us to suspend interest on the EITC portion of tax adjustments. As part of the update to accounts as per Recommendations 3 and 4, we will expand the extract criteria to include EITC-impacted taxpayers. The requested operational date is January 1, 2004.

IMPLEMENTATION DATE

January 1, 2004

RESPONSIBLE OFFICIAL

Deputy Director, Compliance Policy, SB/SE

CORRECTIVE ACTION PLAN MONITORING

The Program Manager, Office of Penalties and Interest, will advise the Deputy Director, Compliance Policy of any delay, change, or problem with the implementation.

If you have any questions, please call me at (202) 622-0600, or call Joseph Brimacombe, Deputy Director Compliance Policy, SB/SE at (202) 283-2200.